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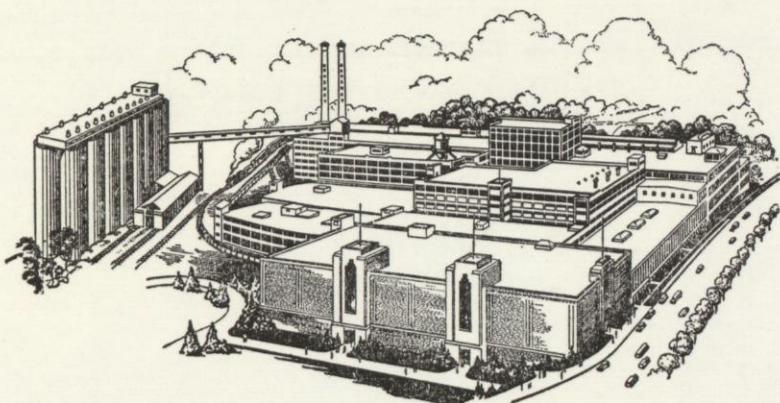
CHOCOLATE CORPORATION

ANNUAL REPORT
DECEMBER 31, 1954



HERSHEY
CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

P. A. STAPLES, *Chairman*

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L. W. MAJER

P. N. HERSHEY

W. E. SCHILLER

S. F. HINKLE

D. PAUL WITMER

OFFICERS

P. A. STAPLES, *President*

L. W. MAJER, *Secretary*

W. E. SCHILLER, *Treasurer and Comptroller*

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY
NEW YORK

REGISTRAR

GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

*To the Stockholders of
Hershey Chocolate Corporation:*

I am pleased to present the annual report of your Company, including the balance sheet as of December 31, 1954 and statements of profit and loss and earned surplus for the year 1954, together with the opinion of Arthur Andersen & Co., independent public accountants.

Sales in 1954 totaled \$159,431,588, an increase of \$9,407,669 over the preceding year, and net profit amounted to \$7,090,707 as compared with \$9,908,547 in 1953. After deducting Preferred Stock dividends the net profit was equivalent to \$2.75 and \$3.92 a share of Common Stock in the respective years. The dollar volume of sales for 1954 was approximately 6% higher than in the preceding year, and was second only to the record year of 1948. In tonnage or physical units, however, the volume of business was less, and, because of the greatly increased cost of cocoa beans, the profit margin was lower. To the extent deemed practical adjustments were made in sales prices or sizes of finished products but, as pointed out in the annual report last year, it is not possible under the competitive conditions of our industry to make adequate adjustments to offset all the additional cost.

The procurement of cocoa beans is a major problem of the entire industry. The supply at a satisfactory price is apparently short in relation to world-wide demand, and at one point in the year 1954 the market price reached a new peak. The Association of Cocoa and Chocolate Manufacturers of the United States has estimated, on the basis of reports received from 18 companies of the Association representing approximately 90% of the industry, that cocoa bean grindings in the country as a whole in 1954 were 17½% lower than 1953, a drop which is attributed to the high price of cocoa beans. In 1948 the Association, to which your Company is the largest contributor, organized the American Cocoa Research Institute for the purpose of encouraging cocoa bean production and research in tropical countries. The results of its aggressive program are now becoming increasingly evident, especially in the Western Hemisphere, although to date these efforts have not, due to many factors in other areas, increased the total world supply. We are also encouraged by the fact that the United States Government started recently, under the Point Four program, to assist in the effort to increase cocoa bean production.

Dividends of \$2.12½ a share were paid in each year on the Preferred Stock. The regular cash dividends of \$.50 quarterly on the Common Stock paid during 1954 amounted to \$2.00 a share as compared with a 1953 total of \$2.50 which included an extra cash dividend of \$.50 paid at the end of the year. Starting with the first quarter of 1930, Hershey initiated the payment of quarterly dividends in cash on its Common Stock and has continued this policy uninterruptedly for twenty-five years. We are now classified with the one hundred eighty-six common stocks listed on the New York Stock Exchange which have paid a cash dividend in every calendar quarter for one hundred quarters or longer. The decision by the Board of Directors not to declare an extra dividend for the year 1954 was reached after careful consideration of the need of funds to meet the problem of cocoa bean supply and price. It was again necessary to borrow substantial amounts on a short-term basis because of the seasonal nature of the business; however, all of such loans were repaid before the end of the year.

The financial position of the Corporation remains strong, with working capital at the close of 1954 of \$47,858,154 or \$1,537,084 more than at the end of 1953. Over 65% of the current assets consisted of inventories of raw materials, partly processed materials and finished goods ready for sale, and a substantial part is stated on the last-in, first-out or "Lifo" basis. Inventories at the end of 1953 were much higher than customarily carried; however, this year, as you will note, they have been reduced and are more in line with those carried during the three years preceding 1953. Expenditures during the year for additions and improvements to the plant amounted to approximately \$1,300,000, including facilities for the new product described below.

The provision for Federal and Pennsylvania income taxes amounts to \$7,450,000, which is greater than the net profit for the year. Under the program of accelerating tax payments, the Federal income tax law requires fifty percent of the tax to be paid by March 15 and the remainder by June 15, 1955. Recent changes in the tax law will make still greater demands upon the funds of business corporations by further acceleration of payments. Under the new schedule of progressively increasing payments the corporate taxpayer will reach a point in five years where fifty percent of a year's tax must be paid on an estimated basis before the end of the year. The Corporation held at December 31, 1954 \$7,500,000 of United States Treasury Savings Notes which are shown on the

balance sheet as an offset against the liability for Federal income taxes.

The program of research and development is being aggressively followed with the objectives of maintaining and improving the quality of our products, developing new items, and rendering service to manufacturing, sales and other departments. One of the results of this program was the introduction several months ago of a new product under the trade name of "Hershey-Ets" packaged as illustrated in the sample of promotional material enclosed with this report. Since the introduction of this package, the "Hershey-Ets" line was given further impetus by the addition in January 1955 of smaller packages for resale at a 10 cent price and also bulk quantities for sale in variety and other stores specializing in pound or fractional pound sales.

You have undoubtedly read many statements in the news concerning imitations and substitutes for chocolate. Because of the high cost of cocoa beans these products are manufactured by replacing in part cocoa bean ingredients with various substitutes. Hershey has not used substitutes in its Chocolate Bars, Kisses, Dainties, Chocolate Coatings, Chocolate Flavored Syrups, or any of its products, but has strictly maintained its high quality standards, which has been its policy ever since the business was founded more than fifty years ago.

In previous reports mention was made of the great numbers of tourists who come to Hershey each year from many parts of the world, and for whom the high light of the visit is an extended tour of the chocolate plant. The number is greater every year, and I believe it will be of interest to you that another record was established in 1954 with 126,000 visitors to the plant, an increase of nearly 20% over 1953.

The results of this past year would not have been possible without the loyal help and cooperation of our officers and employees, for which I wish to express my deepest appreciation.

Respectfully submitted,

P. A. STAPLES

February 24, 1955

President

HERSHEY CHOCOLATE
BALANCE SHEET

ASSETS

CURRENT ASSETS :

Cash	\$ 8,552,869
United States Government securities.....	2,994,167
	<hr/>
Accounts receivable, less reserves of \$479,763	5,841,529
Inventories (lower of average cost or market, except for cocoa beans and cocoa bean content of goods in process and finished goods inventories which are stated at cost on last-in, first-out basis)	34,457,649
	<hr/>
Total current assets	\$51,846,214

PLANT AND PROPERTY, at cost:

Land	\$ 96,088
Buildings and improvements.....	12,739,762
	<hr/>
Machinery and equipment	21,930,345
	<hr/>
Construction in progress	208,932
	<hr/>
	\$34,975,127
Less—Reserves for depreciation	18,429,990
	<hr/>
	16,545,137

DEFERRED AND PREPAID ITEMS	<hr/> <hr/> <hr/> 206,849
	<hr/>
	\$68,598,200
	<hr/>

NOTE: The Preferred Stock is redeemable by the Corporation. During 1955 the price is \$50.75 per share. Upon voluntary liquidation such Preferred Stock is entitled to \$50 per share. Such prices and amounts are (with certain exceptions) conditioned upon compliance with sinking fund provisions of 5,075 shares of the Preferred Stock per annum. The Corporation had 10,150 shares for redemption on February 15, 1955, has now met such requirement.

TE CORPORATION

DECEMBER 31, 1954

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 2,722,509
Dividend payable February 15, 1955 on Series A cumulative preferred stock.....	123,379
Reserve for state taxes	660,343
Reserve for Federal income taxes.....	\$7,981,829
Less—United States Treasury Savings Notes	7,500,000
	481,829
Total current liabilities	\$ 3,988,060

RESERVE FOR PAST SERVICE COST OF PENSIONS	755,389
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CAPITAL STOCK AND SURPLUS:

Series A 4-1/4% cumulative preferred stock, par value \$50 per share (see Note)— Authorized 233,543 shares; outstanding 233,442 shares (including 1,200 shares in Treasury)	\$11,672,100
Common Stock, without par value— Authorized 3,000,000 shares; outstanding 2,399,251 shares	4,200,716
Earned surplus.....	48,041,935
	\$63,914,751
Deduct - Treasury Stock— 1,200 shares Series A cumulative preferred, at cost	60,000
	63,854,751
	\$68,598,200

tional redemption price is \$52.25 per share and the sinking fund redemption led to a preferential amount equal to its then applicable optional redemption ts are plus accrued dividends. Dividends on, or purchases of, Common Stock sions requiring the Corporation to have purchased or redeemed a cumulative eviously met such sinking fund requirements through 1954 and, having called s through 1956.

HERSHEY CHOCOLATE CORPORATION

STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1954

PROFIT AND LOSS

GROSS SALES, LESS DISCOUNTS, RETURNS AND ALLOWANCES	\$ 159,431,588
COST OF GOODS SOLD, SHIPPING, SELLING, AD- MINISTRATIVE AND GENERAL EXPENSES	144,890,881
	\$ 14,540,707
PROVISION FOR INCOME TAXES:	
Federal income tax	\$ 7,000,000
Commonwealth of Pennsylvania income tax	450,000
Net profit for the year	<u>\$ 7,450,000</u>
	<u>\$ 7,090,707</u>

NOTE: Costs and expenses include provision for depreciation of plant and equipment in the amount of \$1,190,858.

EARNED SURPLUS

EARNED SURPLUS AT DECEMBER 31, 1953	\$ 46,243,254
ADD -- Net profit for the year 1954	7,090,707
	<u>\$ 53,333,961</u>
DEDUCT:	
Dividends—	
On Series A 4-1/4% cumulative preferred stock (\$2.12½ per share)	\$ 493,524
On Common stock (\$2.00 per share)	<u>4,798,502</u>
	<u>5,292,026</u>
EARNED SURPLUS AT DECEMBER 31, 1954	<u>\$ 48,041,935</u>

AUDITORS' CERTIFICATE

*To the Board of Directors,
Hershey Chocolate Corporation:*

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1954, and the related statements of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation as of December 31, 1954, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
February 8, 1955.

HERSHEY CHOCOLATE CORPORATION

EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA

WAREHOUSES

Atlanta, Ga.	Little Rock, Ark.
Billings, Mont.	Los Angeles, Cal.
Cambridge, Mass.	Milwaukee, Wis.
Chicago, Ill.	New Orleans, La.
Cincinnati, Ohio	New York, N. Y.
Dallas, Texas	Oklahoma City, Okla.
Davenport, Iowa	Omaha, Neb.
Denver, Colo.	Pittsburgh, Pa.
Detroit, Mich.	Portland, Ore.
East St. Louis, Ill.	St. Paul, Minn.
Houston, Texas	Salt Lake City, Utah
Jacksonville, Fla.	San Francisco, Cal.
Kansas City, Mo.	Seattle, Wash.

SALES OFFICES

In all principal cities in the United States

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS	MILK CHOCOLATE KISSES
ALMOND BARS	BAKING CHOCOLATE
SEMI-SWEET BARS	DAINTIES
KRACKEL BARS	BREAKFAST COCOA
MR. GOODBAR	CHOCOLATE SYRUP
MINIATURE BARS	HOT CHOCOLATE POWDER
HERSHEY-ETS	CHOCOLATE FUDGE TOPPING

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

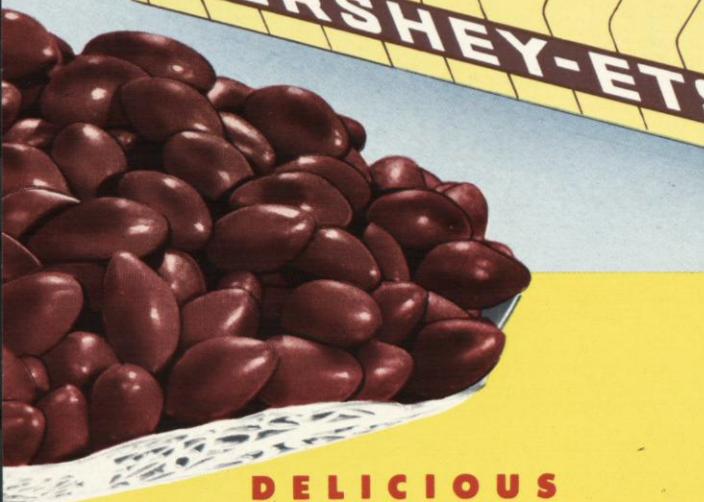
CHOCOLATE COATINGS	COCOA POWDER
UNSWEETENED CHOCOLATE	CHOCOLATE SYRUP
COCOA BUTTER	CHOCOLATE FUDGE

NEW!

Another...

HERSHEY PRODUCT

Priced right for the consumer...
Priced right for your profit!



DELICIOUS

HERSHEY'S MILK CHOCOLATE
FIRST-in flavor and flavor candy
coated and a sure bet to sell and
sell and SELL!

ORDER NOW BY ITEM NUMBER

ITEM NO. 90
Packed 24 sixoz.
window boxes
to the carton

**FOR YEAR-ROUND
Sales!**

